

Message Text

CONFIDENTIAL

PAGE 01 BONN 03881 01 OF 02 031705Z

ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00

EB-08 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 SS-15 STR-04 ITC-01 TRSE-00

USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 XMB-02 PM-04 /092 W

-----031722Z 005671 /44

R 031656Z MAR 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6126

INFO AMEMBASSY BERLIN

USMISSION USBERLIN

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMCONSUL FRANKFURT

C O N F I D E N T I A L SECTION 01 OF 02 BONN 03881

E.O. 11652: GDS

TAGS: EEWT, GW, GE

SUBJECT: FRG/GDR ECONOMIC RELATIONS BEFORE LEIPZIG

REF: 76 BONN 15609

1. SUMMARY: CURRENT ROUND OF POLITICAL DIFFICULTIES BETWEEN THE TWO GERMANYS DOES NOT SEEM TO HAVE HAD ANY FALLOUT IN THE ECONOMIC SECTOR. TRADE IN BOTH DIRECTIONS CONTINUES TO GROW AND BILATERAL DISCUSSIONS AND ECONOMIC AGREEMENTS CONTINUE TO FLOW SMOOTHLY. PROSPECTS FOR FURTHER WEST GERMAN CREDIT TO THE EAST MAY BE FURTHER REDUCED BY CURRENT POLITICAL DIFFICULTIES, BUT THE CHANCES OF SUCH CREDITS WERE EXTREMELY SLIGHT TO BEGIN WITH. END SUMMARY.

2. ECONMIN OFFICIAL IN INNER-GERMAN TRADE OFFICE OFFERS A RELATIVELY RELAXED ASSESSMENT OF CURRENT STATE OF FRG-GDR ECONOMIC RELATIONS. RECENTLY RELEASED TRADE
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PAGE 02 BONN 03881 01 OF 02 031705Z

FIGURES SHOW THAT A NEW RECORD IN TRADE TURNOVER (DM 8.4 BILLION) WAS REACHED IN 1976. PROGRESS WAS ALSO MADE IN REDUCING THE TRADITIONAL WEST GERMAN TRADE SURPLUS, AS EAST GERMAN EXPORTS INCREASED 16 PERCENT TO DM 3.95 BILLION. WEST GERMAN EXPORTS INCREASED 11 PERCENT. THE CUMULATIVE HARD CURRENCY DEBT OF EAST GERMANY TO THE FRG INCREASED SLIGHTLY TO DM 2.6 BILLION.

OUR SOURCE WAS PLEASED THAT LARGE SHARE OF INCREASED GDR EXPORTS CONSISTED OF FINISHED PRODUCTS, INCLUDING CHEMICALS, CHEMICAL PRODUCTS, MACHINERY AND ELECTRO-TECHNICAL PRODUCTS. OUR SOURCE NOTED THAT THE INCREASE IN TRADE WAS ATTAINED IN SPITE OF INCREASED GDR DEMANDS FOR COMPENSATION ARRANGEMENTS.

3. IN THE RAW MATERIALS SECTOR, COOPERATION BETWEEN THE TWO GERMANY'S ALSO CONTINUES TO PROCEED SMOOTHLY. THE JOINT MINING OF BORDER COAL FIELDS IN THE AREA OF HELMSTEDT IS PROCEEDING AS EXPECTED WITH BOTH SIDES NOW ENGAGED IN MINING IN THE OTHER'S TERRITORY. DISCUSSIONS ON THE DISTRIBUTION OF NATURAL GAS IN THE AREA ARE ALSO TAKING PLACE, ALTHOUGH THE QUANTITY OF GAS IS NOT LARGE ENOUGH TO MAKE THE MATTER AN IMPORTANT ONE FOR EITHER SIDE.

4. THE FRG EXPECTS TO BE THE LARGEST WESTERN EXHIBITOR AT LEIPZIG AGAIN THIS YEAR WITH 700 TO 800 FIRMS REPRESENTED. ECONMINISTER FRIDERICH'S WILL NOT REPEAT NOT ATTEND BUT THERE STILL IS A POSSIBILITY THAT STATE SECRETARY ROHWEDDER WILL.

5. THE QUESTION OF CREDITS WILL CONTINUE TO BE A DIFFICULT ONE FOR THE FRG. THE LEGAL LIMIT TO THE SWING CREDIT HAS BEEN REACHED AND THE INFORMAL CEILING ON GOVERNMENT GUARANTEES FOR EXPORT CREDITS (DM 2.25 BILLION) HAS ALSO BEEN REACHED. THE GRANTING OF FURTHER CREDITS IS TIED NOT ONLY TO FRG COMMERCIAL INTERESTS, CONFIDENTIAL

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PAGE 03 BONN 03881 01 OF 02 031705Z

BUT ALSO TO THE CURRENT POLITICAL SITUATION. OUR

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PAGE 01 BONN 03881 02 OF 02 031706Z

ACTION EUR-12

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USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 XMB-02 PM-04 /092 W
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C O N F I D E N T I A L SECTION 02 OF 02 BONN 03881

SOURCE SPECULATED THAT THE FRG MIGHT STILL BE WILLING TO PROVIDE CREDITS SHOULD A LARGE DEAL PRESENT ITSELF AND THE QUESTION OF CREDIT PLAY THE DECIDING ROLE. WITH GERMANY'S MAJOR COMPETITORS OFFERING GOVERNMENT CREDITS OR SUBSIDIZED INTEREST RATES, OUR SOURCE IS CONCERNED THAT THE FRG WILL LOSE OUT ON MOST MAJOR DEALS IF NEITHER CREDITS NOR GUARANTEES CAN BE PROVIDED IN THE NEAR TERM.

6. ON THE GDR HARD CURRENCY SITUATION, OUR SOURCE STATED THAT THE LATEST DECISION TO IMPOSE A DM 10 FEE ON TRAVELLERS INTO EAST BERLIN IS ONLY ONE INDICATION OF EAST GERMANY'S SEVERE NEED FOR HARD CURRENCY. HE FEARS THAT CUTBACKS IN EAST GERMAN IMPORTS FROM THE WEST ARE INEVITABLE IF FURTHER SOURCES OF HARD CURRENCY CAN NOT BE FOUND, SINCE THE GDR'S FINANCIAL POSITION IS EVEN WORSE NOW THAN IN 1976. IN THIS REGARD, HE NOTED
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PAGE 02 BONN 03881 02 OF 02 031706Z

WITH LITTLE ENTHUSIASM THAT THE FRG HAS PLANNED TO OPEN NEGOTIATIONS IN 1978 ON REPAYMENT OF THE SWING CREDIT. UNLESS THE GDR'S FINANCIAL POSITION IMPROVES BY THAT TIME, SOMETHING WHICH HE DOUBTS, THE FRG IS NOT LIKELY TO COME AWAY WITH AN ACCEPTABLE AGREEMENT ON THE REPAYMENT OF THIS CREDIT.

7. OUR SOURCE DENIED TWO NEWSPAPER REPORTS WHICH STATED THAT FRIDERICH'S HAD HELD TALKS WITH THE EAST GERMAN GOVERNMENT ON A PLAN TO CONSTRUCT A POWER LINE BETWEEN WEST BERLIN AND THE FRG. QUID PRO QUO FOR GDR APPROVAL OF THIS LINE WOULD BE, ACCORDING TO THE NEWS-PAPER ACCOUNTS, THE GRANTING OF NEW WEST GERMAN CREDITS. SOURCE STATED THAT THE FRG REMAINS INTERESTED IN A POWER CONNECTION BETWEEN WEST GERMANY AND WEST BERLIN, BUT

ONLY IF IT IS PART OF A LARGER SYSTEM SUCH AS THE
NOW-DORMANT KALININGRAD PROJECT. A SIMPLE LINE
BETWEEN THE FRG AND WEST BERLIN WOULD BE OF NO INTEREST
TO THE FRG SINCE THE EAST GERMANS COULD CUT IT WHENEVER
THEY WANTED. AS TO THE GRANTING OF ADDITIONAL CREDITS
AS A QUID PRO QUO, SOURCE MERELY RESTATED HIS ABOVE
COMMENTS ON THE DIFFICULTY OF OFFERING FURTHER CREDITS
AT THIS TIME.
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